

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
MARSHALL DIVISION

PALTALK HOLDINGS * Civil Docket No.
 * 2:06-CV-367
VS. * Marshall, Texas
 *
 * March 10, 2009
MICROSOFT CORPORATION * 2:54 P.M.

TRANSCRIPT OF EXHIBIT HEARING
BEFORE THE HONORABLE JUDGE CHAD EVERINGHAM
UNITED STATES MAGISTRATE JUDGE

APPEARANCES:

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TRANSCRIBER

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(Proceedings recorded by electronic recording equipment,
transcript produced on CAT system.)

P R O C E E D I N G S

THE COURT: The question is to the admissibility of the Sitrick patent license which is DX-260. The question being whether it is admissible given the Court's ruling on Plaintiff's Motion in Limine 23 which excludes licenses granted under a threat of litigation.

And the Court, this afternoon, was furnished copies of several dockets -- or documents, rather, from the Plaintiff's counsel that the Plaintiff contends show that the license agreement at issue was entered into under a threat of litigation.

Do I got the dispute?

MR. WARD: You have got the dispute.

THE COURT: Proceed.

Tell me what you need to tell me.

MR. WARD: All right, Your Honor. First, I apologize for the unorthodox way in which we have been presenting these arguments to you, you don't get the benefit of a response and haven't had the benefit of briefing and another response certainly with this issue, but it's the way that we're -- the method of operation that we've been told to get down here and have you resolve this. So ...

THE COURT: I'm adaptable.

MR. WARD: All right. We're trying to adapt as

1 well, Your Honor.

2 As you know, you granted PalTalk leave to take
3 a 30(b)(6) to determine whether or not this Sitrick license
4 was entered into under threat of litigation.

5 We received these documents after you issued
6 that order which we were of the opinion showed on the face
7 that the license was entered into under a threat of
8 litigation.

9 Of course, we have not had the opportunity
10 until now to present the documents to the Court, and we're
11 still of that belief.

12 And I'll walk through them very briefly. What
13 we did was number the documents, 1 through 5 in a handwritten
14 fashion and highlighted what we thought were -- or I should
15 say what I thought were relevant sections of some on the
16 correspondence between Microsoft and Mr. Sitrick's counsel,
17 and I assume that the Court has had an opportunity to review
18 those, and I certainly don't want to waste your time reading
19 them to you.

20 But starting off with the first letter, May 25,
21 1999, there is reference to Mr. Sitrick's other lawsuits, and
22 this is in the context of writing Microsoft to determine
23 whether or not they might be willing to take a license to the
24 Sitrick patent, and attached to it is the licensing program,
25 Mr. Sitrick's licensing program. And if you look, there are

1 four items that get attached: An executive summary, a copy of
2 the patent, and opinions from Judge Williams in the litigation
3 in which Mr. Sitrick had been engaged with some of Microsoft's
4 competitors. Then you have got correspondence coming back
5 from Microsoft, the third tab, where they're disputing whether
6 or not there is infringement. And they start -- they note
7 that there's litigation involving Electronic Arts, and you see
8 Ms. Quan referenced in the last paragraph, that she's the one
9 now handling this matter.

10 And I do not have Ms. Quan's declaration with
11 me, I don't know if the Court has it handy, where she gave a
12 declaration stating that the Sitrick license was not entered
13 into under a threat of litigation.

14 About a year goes by and I guess the Electronic
15 Arts litigation progresses over a year and Mr. Sitrick's
16 counsel writes to update Microsoft on that litigation, to let
17 Microsoft know that that lawsuit has settled.

18 And then the last item that we tabbed was the
19 license agreement that was entered into between Microsoft and
20 Mr. Sitrick where they gave a covenant not to sue.

21 So, again we believe that these documents on
22 their face demonstrate that the Sitrick license was entered
23 into under a threat of litigation.

24 We were not attempting to inquire of Ms. Quan
25 in lieu of the deposition, but we think that Microsoft's

1 credibility is now squarely in dispute because of the
2 statements that she made in that declaration as this Court has
3 heard many times, lawyers argue that a party's credibility is
4 always in dispute, and we think that by designating her as the
5 corporate representative, even if these documents do come in,
6 if the Court says, you know what, Mr. Ward, I disagree with
7 you, they are not under a threat of litigation, the documents
8 come in. I think that we're -- we -- maybe it's outside the
9 presence of the jury given your other ruling, would be
10 entitled to question her about the statements that she made in
11 her declaration to the Court about these documents. And
12 certainly inquire of Microsoft's damages expert about the
13 weight that he gave these licenses in lieu of the Court's
14 clear rulings about the fact that experts are not to rely upon
15 experts -- or to rely upon licenses that are entered into
16 under a threat of litigation, and we should be entitled to
17 inquire of their expert at a minimum as to whether or not he
18 was aware of the contents of Plaintiff's Exhibit No. 684 when
19 he relied upon the Sitrick license to form the basis. I said
20 his, of her opinion.

21 THE COURT: Okay. Let me ask -- I have a few
22 questions.

23 MR. WARD: Okay.

24 THE COURT: The first letter looks like --
25 well, my first question is other than the reference to the

1 patentee's other lawsuit, is there any statement in any of the
2 documents where the patentee made an express threat of
3 litigation against Microsoft?

4 MR. WARD: Absolutely not, they never said, if
5 you don't take a license, we're going to sue you.

6 THE COURT: Okay. Is there any indication in
7 any of the documents that Microsoft ever retained outside
8 counsel?

9 MR. WARD: I haven't seen that from the
10 documents, the documents that we have, no, sir.

11 THE COURT: Okay. And were any of the
12 documents -- and I'm saying that my review of them is that
13 they weren't, but I could have missed something this
14 afternoon, were any of them ever marked under 408 as
15 confidential settlement type agreements?

16 MR. WARD: They were -- they are not. But
17 there is the confidentiality agreement that is entered into
18 before they get into these negotiations, and I looked at those
19 closely and I didn't see that the -- any reference that the
20 negotiations are for compromise only, to compromise a dispute.
21 Although I think it is having the same import without
22 referencing 408, and of course Mr. Sitrick was careful not to
23 say if you don't take a license, we're going to sue you, but
24 he attached the information that said we've sued everybody
25 else, and I think the roadmap was clear to Microsoft.

1 THE COURT: And did he ever provide evidence of
2 Microsoft's infringement other than the statements in here,
3 the lists of products that he believed were covered by the
4 patent claims?

5 MR. WARD: I don't believe there's anything in
6 writing, but if you'll look at Mr. Bocianowski's -- it's the
7 third -- third letter, there were clearly some discussions
8 that took place about Mr. Sitrick's more specific theory of
9 infringement because he talks to him about his theory of
10 contributory infringement with Microsoft disagrees with that
11 assessment. So, there was clearly some type of assessment
12 given to Microsoft about the specific -- I say clearly -- it
13 seems apparent that there were some additional discussions
14 outside of these letters that took place with respect to what
15 Mr. Sitrick's theory of infringement was with respect to
16 Microsoft.

17 THE COURT: Okay. And I also -- I didn't see
18 any -- I think you may have just referenced this, any cease
19 and desist type directives from Mr. Sitrick or his counsel.

20 MR. WARD: There were not, but there also was
21 never a promise not to sue, you know, when they were writing
22 Microsoft saying, look, we're not going to sue you, but we
23 just want to talk to you about taking a license. In fact, the
24 contrary, they were silent as to that and attached information
25 that indicated that they had sued a number of other

1 competitors who had not taken licenses, I guess, initially
2 under a voluntary basis without a lawsuit. In fact, there is
3 no reference to any licensee taking a license without a
4 lawsuit being filed.

5 THE COURT: Okay. All right. Thank you.
6 Mr. Gillam?

7 MR. GILLAM: Gil Gillam on behalf of Microsoft,
8 Your Honor. And I do have a copy of Ms. Quan's declaration if
9 the Court does not have it or if the Court needs to see it.

10 THE COURT: Pass it up.
11 (Counsel complies.)

12 THE COURT: Okay. Go ahead, Mr. Gillam.

13 MR. GILLAM: Your Honor, the issue as to the
14 exclusion of the patent license appears to be under the case
15 law as to when the dispute is crystallized to the point of
16 threatened litigation.

17 As the Court has noted, and throughout the
18 comments of Mr. Ward, there is not one statement in any one of
19 these documents where actual litigation is threatened. There
20 is a recitation of other litigation, and there is an
21 invitation to come meet and discuss a paid up license, but
22 that is as far as it goes.

23 And I think what is also instructive is the
24 time frame. Apparently, and I didn't catch it until Mr. Ward
25 brought it up, but you have got a year's time frame between

1 the time these things begin and the time that apparently it
2 ended. Nowhere in that period of time from these documents
3 does it --

4 THE COURT: Actually it's over two years it
5 looks like from May of 1999 and it looks like it culminated in
6 an agreement that was reached on or about early October of
7 2001.

8 MR. GILLAM: Well, certainly there was no
9 litigation instituted. There is no letter which threatens any
10 institution of litigation during that time period at all.
11 There is only references of other litigation. And none of the
12 documents that have been provided, they have been examined,
13 show a threat of litigation or anything approaching a
14 crystallization of that issue.

15 So, just very briefly, Your Honor, we do not
16 believe that it shows a threatened litigation. Obviously a
17 license was granted, there is boilerplate language in there
18 which says that there is going to be a covenant not to sue for
19 any claim or claims that might be made.

20 We simply do not know from these documents and
21 the discussions whether or not there was ever a claim. These
22 documents simply do not prove threatened litigation. And that
23 is our position.

24 THE COURT: Well, hold on just a second. Your
25 position is that there wasn't an expressed threat.

1 MR. GILLAM: There is not an expressed threat,
2 Your Honor.

3 THE COURT: Well, I know, but as I understand
4 the other side's argument is that there could be a veiled
5 threat at least at a minimum referencing other -- you know, I
6 mean, there's a licensing program here, has I thought three or
7 four documents in it, at least two of them were court
8 opinions.

9 MR. GILLAM: Absolutely, Your Honor. And not
10 only are there court opinions, but there are also other
11 references through the other letters to this other litigation.
12 And, in fact, a recitation about a year down the road saying
13 that, by the way, we have settled some other litigation. I
14 don't think that constitutes a veiled threat.

15 As attorneys, we all know how to write demand
16 letters, we all know how to write letters which point out very
17 clearly to the other side what our intent is. I do not
18 believe that these letters ever amount to anything other than,
19 come let us visit together and see if we can work something
20 out. And eventually that's what occurred between -- between
21 these two parties.

22 Certainly -- and if there was any veiled --
23 anything that is veiled there, Your Honor, I do not believe it
24 reaches the point of crystallization of a threat. I don't
25 really believe there is anything that is even a veiled threat

1 of litigation, but certainly nothing that brings it to that
2 level.

3 THE COURT: All right. Thank you.

4 Reply?

5 MR. WARD: Your Honor, I think you have covered
6 the issue. I'm happy to answer any other questions that you
7 have got. All I know is pretty much what's in the documents,
8 and how we view that as not geehawing with Ms. Quan's
9 declaration.

10 THE COURT: Okay. All right. I will give you
11 a ruling on it as quickly as I can.

12 MR. WARD: Thank you.

13 MR. GILLAM: Thank you.

14 THE COURT: We're in recess.

15 COURT SECURITY OFFICER: All rise.

16 (Court adjourned.)

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C E R T I F I C A T I O N

I HEREBY CERTIFY that the foregoing is a
correct transcript from the electronic recording of the
proceedings in the above-entitled matter to the best of my
ability.

SUSAN SIMMONS, CSR
Official Court Reporter
State of Texas No.: 267
Expiration Date: 12/31/10

Date